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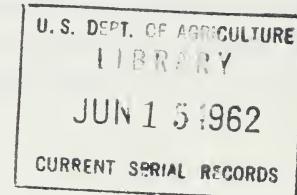
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An
Aid
to
Freezer
Provisioners

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by Bert D. Miner



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Farmer Cooperative Service
U.S. Department of Agriculture

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FARMER COOPERATIVE SERVICE
U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON 25, D. C.

Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

This study was conducted under authority of the Agricultural Marketing Act of 1946 (RMA, Title II).

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Highlights

Credit is a powerful merchandising tool. Approximately one-third of the firms in the locker and freezer provisioning industry believed so in 1960. Their average sales volume for the previous year supported their belief. Firms extending credit had average sales of \$163,400 compared with \$85,500 for the entire industry.

The North Atlantic Region had the largest proportion of firms (39 percent) extending credit for 60 days or more.

A greater proportion of the operators in larger communities extended credit than did operators in smaller towns. Sixty percent of the locker and freezer provisioners in towns of over 25,000 population extended credit.

Extending credit was not solely responsible for the higher level of sales, but it did open the way for using complementary services, such as delivering, to advantage. The firms that extended credit were more alert to commercial and merchandising opportunities than were all firms.

Credit

An Aid to Freezer Provisioners

by Bert D. Miner

*Frozen Food Locker Branch
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Extension of credit is becoming increasingly important in the frozen food locker and freezer provisioning industry. Thirty-one percent of the firms in the industry financed or arranged financing for 60 days or more for bulk food purchases by patrons in 1960 compared with 16 percent in 1955.

This study explored the influence of credit upon business volume and determined the operating characteristics of firms that extended credit. The technique used was to compare the average firm that extended credit with the average for all firms in the industry.

The all-industry average, which served as the standard of comparison, was obtained from findings in a nationwide study of the locker and freezer provisioning industry made by Farmer Cooperative Service in 1960. All types of locker and freezer provisioning businesses, including cooperatives, were studied.

Data from the same industrywide study were examined to determine the characteristics of firms that extended credit. Then the average of these firms was compared with the average of all firms.

Note: Appreciation is expressed to Albert Todoroff, Editor and Publisher of Freezer Provisioning, for the pictures he furnished.



Almost 10,000 frozen food locker and freezer provisioning firms are operating in the United States.

While this was not a precise measure, it did show direction and the general manner in which firms use credit as a merchandising tool. Findings should be helpful to managers weighing the pros and cons of extending credit.

To simplify the presentation, we used the term "all firms" to refer to all firms in the industry and "firms extending credit" to refer to those that financed or arranged financing for 60 days or more for bulk food purchases by patrons. Topics are covered in the following sequence: Number and location of firms, sales and processing volume, patronage, operations, and rates.

Number and Location of Firms

In 1960 approximately one-third of the firms in the locker and freezer provisioning industry extended credit for 60 days or more.¹ They were distributed geographically as shown in table 1.

Data in table 1 indicate that a smaller proportion of firms in the North Central Region extended credit than

¹Wilkins, P. C., Mann, L. B., and Miner, B. D., 1960 Highlights and Trends of the Frozen Food Locker and Freezer Provisioning Industry, Farmer Cooperative Service, U. S. Dept. of Agr., Mktg. Res. Rept. 484, 1961.

Table 1. - *Number of all firms and firms extending credit and the latter as a percentage of the former, by regions, 1960*

Region	All firms	Firms extending credit	Firms extending credit as a percentage of all firms
	Number	Number	Percent
North Atlantic	691	272	39
North Central	5,228	1,434	27
South Atlantic	421	158	38
South Central	1,078	389	36
Mountain	853	327	38
Pacific	1,604	510	32
United States ¹	9,875	3,090	31

¹The States of Alaska and Hawaii were not included. Statehood had not been conferred at the time the industrywide study was initiated.

did those in other regions. This may have been because, although over half the total firms in the industry were in this region, many of them were small. The North Atlantic Region showed the largest proportion of firms extending credit of any of the regions (39 percent).

A distinct positive relationship was discovered between percentage of firms extending credit and population of communities in which firms were located. This is shown in the accompanying tabulation.

Population of town	All firms	Firms extending credit as a percentage of all firms	
		Number	Percent
1,000 or under	3,607	18	
1,001 - 2,000	1,638	26	
2,001 - 5,000	1,466	29	
5,001 - 10,000	916	41	
10,001 - 25,000	868	44	
Over 25,000	1,380	60	
	9,875	31	

This indicates that a greater proportion of the operators in larger communities believed they could extend

credit advantageously than did operators in smaller towns.

Sales Volume

Credit and sales were positively related. Average sales of firms extending credit amounted to \$163,400 in 1959, compared with \$85,500 for all firms.

Sales of firms extending credit were, on the average, over 90 percent greater than for all firms. It would be unrealistic to say, however, that these larger sales were entirely due to credit. Other services also exerted favorable influences.

Evidence suggests that some services were deliberately employed to take advantage of the selling power of



Extending credit opens the way for other services, such as delivering bulk purchases to the customer's home.

credit. Delivery service was the prime example of this. Credit helped patrons to buy food in bulk quantities and delivery service provided a convenient way to get these large quantities home. Other services exerted a lesser influence.

Firms extending credit emphasized commercial activities to a greater extent than all firms did. Sales of custom services, such as income from locker rentals and custom processing, accounted for an average of 14 percent of sales for all firms but only 9 percent for firms extending credit.

Percentages of firm sales derived from specified sources were as follows:

<u>Source</u>	<u>All</u>	<u>Firms extending</u>
	<u>firms</u>	<u>credit</u>
	<i>Percent</i>	<i>Percent</i>
Custom services	14	9
Meat and poultry	56	57
Other frozen foods	9	11
Homefreezers	19	21
Other	2	2
	<hr/>	<hr/>
	100	100

Sales of meat and poultry accounted for only 1 percentage point more of financing firms' sales than they did for all firms, yet average dollar value of meat and poultry sales of financing firms was 95 percent larger than for all firms--\$93,000 and \$47,900 respectively. This indicates that credit lifted the level of sales in all parts of the business, but especially in commercial processing and merchandising.

Relatively greater proportions of firms extending credit had large sales volumes than did all firms. The number of all firms and firms extending credit as a percentage of all firms, by specified sales volumes, are tabulated here.



Firms extending credit processed an average of 287,000 pounds of meat in 1959.

<u>Sales volume</u>	All firms	Firms extending credit as a percentage of all farms
		<i>Number</i>
Under \$25,000	4,100	15
\$25,000 - \$49,999	2,000	34
\$50,000 - \$74,999	1,700	48
\$75,000 - \$99,999	1,100	56
\$100,000 - \$199,999	700	61
\$200,000 and over	300	77
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	9,900	31

Processing Volume

Measured in terms of physical volume of products handled, firms extending credit exceeded the average for the industry. These firms processed an average of 287,000 pounds of meat compared with 203,000 pounds for all firms. This was 41 percent above the industry average.

The percentage of firms processing specified quantities of meat are shown in the accompanying tabulation.

<u>Meat processed</u>	<u>All firms</u>	<u>Firms extending credit</u>
<i>1,000 pounds</i>	<i>Percent</i>	<i>Percent</i>
Under 100	37	25
100 - 199	27	25
200 - 299	16	20
300 or more	20	30
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	100	100

Patronage

The number of patrons a firm serves is another measure of its size. Here again the average firm extending credit out-distanced the average firm in the industry. Firms extending credit served an average of 966 patrons compared with 653 for all firms.

The accompanying tabulation compares the percentages of firms with specified numbers of patrons.



A freezer provisioner explains his firm's food plan to prospective patrons.

<u>Number of patrons</u>	<u>All firms</u>	<u>Firms extending credit</u>
	<i>Percent</i>	<i>Percent</i>
Under 300	35	20
300 - 599	31	29
600 - 899	14	16
900 or more	20	35
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	100	100

The average number of patrons served by firms extending credit fell in the 900 or more classification. This was because enough firms served thousands of patrons to more than offset those serving only a few hundred. This comparison shows that a greater percentage of financing firms served large numbers of patrons than did all firms.

The difference would have been even more striking had it been possible to compare the firms extending credit with firms not extending credit instead of with all firms. The data for all firms reflect the inflating effect of the firms extending credit.

Commerical and Merchandising Operations

Compared with the industry average, a significantly larger percentage of firms extending credit were performing specified commercial and merchandising operations. These operations were all of a nature that complement credit.

Specified commercial operations and percentages of firms are compared in the accompanying tabulation.

<u>Commercial operation</u>	<u>All firms</u>	<u>Firms extending credit</u>
	<i>Percent</i>	<i>Percent</i>
Buy livestock for slaughter and resale	26	32
Produce cured meats for sale	34	47
Produce pork sausage for sale	42	60
Produce portion-control meats	12	22

The percentage of firms extending credit that carried on these commercial operations exceeded the percentage for all firms by 6 to 18 points. Firms extending credit showed a similar zest for merchandising. Here firms extending credit topped the average of all firms by 8 to 32 percentage points.

Percentages of firms reporting specified merchandising activities are compared in the accompanying tabulation.

Merchandising activity	All firms	Firms extending credit
	Percent	Percent
Sell packer-slaughtered meats in wholesale cuts	54	74
Sell frozen foods packed by other firms	51	76
Provide delivery service	25	57
Sell frozen meat on a net-weight basis	23	40
Sell frozen meat in prepacked meat boxes	20	40
Sell homefreezers	14	35
Maintain inventory of frozen, packaged retail meat cuts to fill meat orders	13	28
Include dry groceries in freezer provisioning	10	19
Charge a membership fee in a freezer provisioning operation	4	12

Processing Rates

Firms extending credit charged an average of \$5.67 a hundred pounds to cut, wrap, freeze, and grind beef compared with an average of \$5.13 for all firms. Thus the rate of firms extending credit averaged 10 percent above the average rate of all firms.

This is evidence that the high sales volume of firms extending credit (\$163,400) did not result solely from



Most firms extending credit carry on a variety of commercial and merchandising activities.

raising the rate on the usual volume of physical products processed. Instead firms extending credit were able to charge relatively high rates and increase physical volume simultaneously, and thereby reflect a level of sales substantially above the average for the industry.

Other Publications Available

Business Management of Frozen Food Locker and Related Plants, Marketing Research Report 258, James J. Mullen and Lloyd M. DeBoer.

Guide to Uniform Accounting for Locker and Freezer Provisioners, Agriculture Handbook 163, Thornton W. Snead, Sr., and Paul C. Wilkins.

Merchandising Frozen Food by Locker and Freezer Provisioning Plants, Marketing Research Report 313, Bert D. Miner.

Merchandising Practices for Freezer Provisioners, Marketing Research Report 453, Bert D. Miner.

Highlights and Trends -- The Frozen Food Locker and Freezer Provisioning Industry, Marketing Research Report 484, Paul Wilkins, L. B. Mann, and Bert D. Miner.

Management Accounting for Frozen Food Locker and Related Plants, Agriculture Handbook 220, Robert L. Dickens.

A copy of each of these publications may be obtained upon request while a supply is available from --

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